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OTS Order No. SF-94-015

Date: May 10, 1994

WHEREAS, the Director of the OTS has delegated to the Regional Directors of the OTS the authority to issue Orders to Cease and Desist on behalf of the OTS where Torrance Bank has consented to the issuance of the Order.

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NOW, THEREFORE, IT IS ORDERED that the Board of Directors of Torrance Bank shall take all necessary and appropriate action to immediately comply with the following terms and conditions.

1. POLICIES AND PROCEDURES

(a) The Board shall ensure that the Institution's Policies and Procedures on Insider Lending, Conflict of Interest and Code of Conduct, are fully implemented and adhered to by all directors, officers, employees and agents.

(b) Notwithstanding any policy or procedure, the Institution shall not engage or participate in any transaction outside of the normal course of business² with any "affiliate" or "affiliated person" of the Institution as defined in 12 C.F.R. §§ 561.4 and 561.5, except for legally binding commitments that may have been entered into by the Institution prior to the Effective Date (as stated in the caption hereof) of this Order. A list of such legally binding commitments shall be provided to the Assistant Regional Director ("ARD") within thirty (30) days of the Effective Date.

(c) The Board shall ensure that the Institution's Personnel Policies and Procedures are fully implemented and adhered to by all directors, officers, employees and agents.

² Transactions with affiliates in the normal course of business shall be limited to \$2,000 per transaction or occurrence, not to exceed \$10,000 per fiscal year, and shall otherwise be in compliance with OTS Regulations 12 C.F.R. §§ 563.41 and 563.42. The Institution shall obtain prior written approval of the ARD for any transactions exceeding these specific limitations.

(d) The Board shall direct an immediate comprehensive review by the Chief Executive Officer ("CEO") of the performance of all senior management, and the Board shall review such performance review. The Board shall take whatever personnel action it deems prudent and appropriate in connection with such performance reviews. Thereafter, a performance review shall be conducted at least annually by the CEO. In addition, the Board (or, at the Board's direction, the Compensation Committee) shall undertake a periodic comprehensive performance review of the CEO and take whatever personnel action is deemed prudent and appropriate.

(e) The Board shall ensure that job descriptions are developed that address the competency and expertise required of all personnel assigned to all operations, including but not limited to: Thrift Financial Report ("TFR") filings, internal asset review ("IAR") function, mortgage banking operations, interest rate risk management, compliance, asset quality and asset liability management.

(f) Internal Audit Policies and Procedures shall be developed, and the Board shall ensure that such policies and procedures are fully implemented and adhered to by all directors, officers, employees and agents, which, at a minimum, address the comprehensive internal audit needs of the Institution and ensure the independence of the audit function. The Internal Audit Policies and Procedures shall clearly delineate that the audit function be independent of and kept separate from the compliance function.

(g) The Board shall direct that one qualified individual (at a minimum) have immediate (within thirty days of the Effective Date) independent responsibility for the entire internal audit function of the Institution. The Internal Audit Policies and Procedures shall clearly identify and delineate the responsibilities of the personnel in charge of internal audit, and thereafter provide for an annual (at a minimum) review of the staffing needs of the internal audit department.

(h) Likewise, the Board shall direct an immediate (within thirty days of the Effective Date) audit of the TFR and IAR functions of the Institution for compliance with all regulatory rules and guidance.

(i) Within ninety (90) days from the Effective Date, and annually thereafter, the Institution shall submit for review and approval of the ARD, a Board-approved, Internal Audit Plan ("Audit Plan"). The Audit Plan shall, at a minimum:

- (1) detail each area to be reviewed during the current audit cycle in an Audit Schedule approved by the Board. In addition, the Audit Schedule shall cover all high-risk areas including internal asset review, asset/liability management, real estate owned, the accounting department and mortgage loans secured by nonresidential real estate;
- (2) contain an analysis of the Institution's internal audit resources to determine whether the Audit Plan's goals can be reached by the current internal audit staff or whether the department needs to be expanded to adequately perform the audit function;

- (3) require that all responses to Audit Reports include a timely written response and written plan to correct all deficiencies noted in the Audit Report;
- (4) require that the minutes of the Audit Committee meetings are comprehensive and include acknowledgement of receipt of Audit Reports, a discussion of Audit Report findings, and ratification of recommendations; and
- (5) provide for at least quarterly reports by the Audit Committee to the Board. All Audit Committee findings, conclusions and recommendations shall be fully documented in the minutes of the Board meetings.

(j) Mortgage Banking Policies and procedures shall be developed, and the Board shall ensure that such policies and procedures are fully implemented and adhered to by all directors, officers, employees and agents, which, at a minimum, comply with the requirements of Thrift Bulletin 52 ("TB 52").

2. GENERAL VALUATION ALLOWANCES

(a) The Board shall establish and maintain appropriate general valuation allowances ("GVAs") in accordance with the Institution's GVA policy, based upon:

- (1) the Board's review of information provided by management and outside auditors; and
- (2) as may be required from time to time by the OTS or the Federal Deposit Insurance Corporation ("FDIC"). The Institution shall evaluate, and the Board shall review and approve the Institution's level of GVAs on at least a quarterly basis, or more frequently if deemed reasonably necessary for the prudent operation of the Institution.

(b) The GVA policy shall specify the Institution's methodology for establishing sufficient GVAs. Such methodology

shall require stratification of the Institution's asset portfolio and assign appropriate GVA requirements for classified assets and non 1-4 family first trust deed, owner-occupied loans. The methodology shall further be based, in part, on analysis of the Institution's lien position, repayment history, the source(s) of repayment, loan purpose and other factors identified in the Thrift Activities Handbook Section 261. The Board shall review and fully document in the minutes of the meetings of the Board the adequacy of the Institution's GVAs on at least a quarterly basis.

3. CLASSIFIED ASSETS

(a) Within sixty (60) days of the Effective Date, the Board shall adopt a plan for management and resolution of classified assets. The plan shall include:

- (1) identification of the personnel responsible for the management and resolution of classified assets and their various responsibilities;
- (2) appropriate reporting to the Board regarding the status and resolution of classified assets;
- (3) a requirement that within thirty days of classification of any asset with a net book value in excess of \$250,000, a written plan for the management and resolution of such asset shall be prepared by management;
- (4) and procedures for property management and marketing of the asset.

The Board shall also implement control procedures reasonably designed to ensure compliance with the plan.

4. CORRECTIVE ACTION

(a) The Board shall take all appropriate action to ensure that all of the deficiencies cited in the Report of Examination

dated August 9, 1993, which are not specifically cited herein, are corrected.

(b) Prior to each regularly scheduled meeting of the Board occurring after completion of each calendar quarter, management will prepare and submit as part of the package provided to the Board a comprehensive report regarding corrective action matters. Such report shall include a matrix describing the deficiency, the corrective measures taken to cure such deficiency, and the timeframe to correct such deficiencies. At each regularly scheduled meeting occurring after completion of each calendar quarter, the Board will review the report prepared by management and provide certification of such review to the ARD along with the report prepared by management.

5. COMPLIANCE

(a) The Board shall ensure that the Institution's Policies and Procedures on Compliance are fully implemented and adhered to by all directors, officers, employees and agents.

(b) Within ninety (90) days of the Effective Date, the Board shall designate a qualified Compliance/CRA Officer primarily responsible for the Compliance and CRA functions. This position may be either a full time position or filled full time while the corrective actions required by this Order are implemented, but in no event for less than six months, and part-time thereafter. Concurrently, Torrance Bank shall develop position descriptions and reporting relationships for the Compliance function and shall vest the Compliance/CRA Officer-position with the appropriate level of

responsibility, authority, and resources necessary to carry out the duties of the position.

(c) Within sixty (60) days of the Effective Date, the Board and senior management shall develop and submit for review and comment by the ARD a plan for training in connection with their duties and responsibilities under OTS administered laws, regulations and rules regarding federal civil rights, fair housing and lending, consumer protection and other compliance laws and regulations administered by the OTS. Thereafter, the Board and senior management shall adhere to the plan.

(d) The Institution shall establish a formalized CRA program with specific goals, objectives and accountabilities that will actively be overseen by the Board, the Compliance/CRA Officer and senior management. This program shall conform, at a minimum, to the guidelines provided in the "Interagency Policy Statement on Community Reinvestment Act" dated March 30, 1989, and include:

- (1) a description of efforts to ascertain community credit needs and affirmatively incorporate the results of those efforts into the Institution's planning for product development and delivery;
- (2) incorporation of the results of the Institution's monitoring of its lending patterns; and
- (3) periodic evaluation of the Institution's own performance and procedures for documenting its CRA activities and how they relate to its CRA goals.

(e) The Compliance/CRA Officer shall prepare, at least quarterly, and submit as part of the package provided to the Board a comprehensive report regarding compliance matters. At each regularly scheduled meeting occurring after completion of each

applicable quarter, the Board shall review the report prepared by the Compliance/CRA Officer and provide certification of such review to the ARD along with a description of any proposed corrective action. The report by the Compliance/CRA Officer shall include an analysis and evaluation of the Institution's compliance with the following regulatory requirements:

- (1) that the loan application register is completed as required by 12 C.F.R. § 203.4(a);
- (2) that the Institution has adopted and fully implemented clearly written nondiscriminatory loan underwriting guidelines, available to the public upon request, as required by 12 C.F.R. § 528.2;
- (3) that the Institution's "adverse action notice" lists the correct address of the OTS as the federal agency as required by 12 C.F.R. 202.9(b)(1);
- (4) that loan disclosure statements are provided within applicable time frames pursuant to 12 C.F.R. §§ 226.19(a)(1), 226.19(b), 563.99(b) and 563.99(d), and 24 C.F.R. §§ 3500.6(a), 3500.7(a) and 3500.21(d);
- (5) that effective controls have been established to assure compliance with the Truth in Lending Act disclosure requirements as set forth in 12 C.F.R. §§ 226.17 and 226.18;
- (6) that a comprehensive Bank Secrecy Act compliance program has been developed and implemented, which contains the elements required by 12 C.F.R. § 563.177, to assure and monitor compliance with the recordkeeping and reporting requirements set forth by the U.S. Department of the Treasury at 31 C.F.R. § 103, et seq.; and
- (7) that the Institution staff is completely and correctly obtaining and entering all information on Currency Transaction Report forms as required by 12 C.F.R. § 103.27(d) of the Treasury Regulations and 31 U.S.C. § 5311, et seq. (Currency and Foreign Transactions Reporting (Bank Secrecy Act)).

6. BUSINESS AND STRATEGIC PLANS

(a) Prior to the end of the Institution's current fiscal year, and annually thereafter, the Institution shall submit for review and approval of the ARD, a Board-approved, comprehensive annual Business Plan, which details the Institution's operating strategies and financial projections for the following twelve (12) months. The Plan shall include, at a minimum:

- (1) a discussion of the Institution's short term goals and objectives;
- (2) pro forma financial statements which reflect the proposed operating strategy of the Institution; and
- (3) any proposed asset growth or reduction.

(b) The Business Plan under which the Institution is currently operating, approved by the OTS on March 17, 1994, is subject to the requirements of this Order.

(c) Prior to undertaking any operating strategy or activity which materially deviates from those set forth in the Business Plan required under this paragraph, the Institution shall submit for review and approval by the ARD an amended Business Plan.

(d) Prior to the end of the Institution's current fiscal year, and annually thereafter, the Institution shall submit for review and approval of the ARD, a Board-approved Strategic Plan, which details the Institution's strategic plans for the next three (3) to five (5) years. The Strategic Plan shall include, at a minimum:

- (1) a discussion of the Institution's long term goals and objectives;

- (2) pro forma financial statements which reflect the proposed operating strategy of the Institution; and
- (3) any proposed asset growth or reduction for the period covered by the Plan.

7. BOARD REVIEW OF COMPLIANCE

(a) No later than the last day of each month following the applicable quarter during the period that this Order is in effect, the Board shall review a written report by management as to the Institution's compliance with all obligations under this Order and deliver to the ARD within ten (10) days after such review, a copy of the Board resolution duly certified by the Institution's corporate secretary, which either:

- (1) states that to the Board's knowledge, and based upon the Board's prudent review of the compliance reports provided by management, the Institution (including the Board), was in compliance with each and every obligation under this Order; or
- (2) indicates any instance of noncompliance with any of such obligations and specifies the measures taken to cure such noncompliance.

8. DIRECTOR RESPONSIBILITY

(a) Notwithstanding the requirements of this Order that the Board submit various matters to the Regional Director or ARD for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution at all times.

9. COMPLIANCE WITH ORDER

(a) For good cause shown, the ARD may extend the time to complete any act required by this Order, specifically:

- (1) if the ARD disapproves, in whole or in part, any policy, plan, or act required under the terms of this Order, the Institution shall revise the policy, plan or act within thirty (30) days after receiving written notice of objection. Any notice of objection shall state the basis and reasons for objecting to the policy, plan or act. The failure to submit a revised policy acceptable to the ARD within thirty (30) days after receiving written notice of objection shall be considered to be a violation of this Order unless the ARD has provided Torrance Bank with prior written approval to extend the resubmission timeframe;
- (2) with respect to the development and submission of any policy required herein, Torrance Bank shall be considered to be in compliance with the development and submission requirement so long as the Institution develops and submits the policy to the ARD within the required timeframe; and
- (3) a resolution evidencing the Board's review, consideration and approval of the plans required by this Order shall accompany any and all submissions to the ARD.

(b) Additionally, no later than the last day of each month following the applicable quarter during the period that this Order is in effect, the Board shall review a written report prepared by management as to the Institution's compliance with all obligations under this Order during the preceding calendar quarter, and deliver to the ARD, within ten (10) calendar days after such review, a copy of the board resolution duly certified by the Institution's corporate secretary, which either:

- (1) states that to the Board's knowledge, and based upon the Board's prudent review of the compliance reports provided by management, the Institution (including the Board) was in compliance in all

material respects at all times during the preceding calendar quarter, with each and every obligation under this Order; or

- (2) indicates any instances of noncompliance with any such obligations and specifies the measures taken to cure such noncompliance.

9. TERMS

(a) All technical words or terms used in this Order, for which meanings are not defined or otherwise provided by the provisions of this Order, shall, insofar as applicable, have the meaning set forth in Chapter V of Title 12 of the Code of Federal Regulations. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

10. DURATION, TERMINATION OR SUSPENSION OF ORDER

(a) This Order shall:

- (1) become effective upon its execution by the OTS, through its authorized representative whose signature appears below and;
- (2) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or Regional Director (including any authorized designee thereof).

(b) The Regional Director in his or her sole discretion, may, be written notice, suspend any or all provisions of this Order.

11. TIME LIMITS

(a) Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted.

12. EFFECT OF HEADINGS

(a) The Section headings herein are for convenience only and shall not affect the construction hereof.

13. SEPARABILITY CLAUSE

(a) In case any provision of this Order is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

14. NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED; RELATION TO STATE LAW

(a) Nothing in this Order shall be construed as:

- (1) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject; or
- (2) restriction or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

(b) As an institution chartered under state law and subject to regulation and supervision by a state regulatory authority, the Institution may be subject to various restrictions imposed by the appropriate state regulatory authority. The Institution must continue to comply with any such restrictions, notwithstanding the receipt by the Institution of authorizations or notices of non-objection of the Regional Director or ARD, except to the extent that such restrictions have been deemed to be pre-empted by federal law.

15. SUCCESSORS IN INTEREST/BENEFIT


(a) The terms and provisions of this Order shall be binding upon and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Order.

16. SUPERVISORY AGREEMENT

(a) Upon the Effective Date, the Supervisory Agreement dated January 25, 1993 between Torrance Bank and the Office of Thrift Supervision shall be terminated and be of no further force and effect.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: 
John F. Robinson
Regional Director

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

**TORRANCE BANK, S.S.B.,
Torrance, California.**

Date: May 10, 1994

**STIPULATION AND CONSENT TO ENTRY OF AN
ORDER TO CEASE AND DESIST**

WHEREAS, the Office of Thrift Supervision ("OTS"), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Torrance Bank, S.S.B., Torrance, California ("Torrance Bank"), OTS Docket No. 8280, pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b).¹

WHEREAS, Torrance Bank desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist, hereby stipulates and agrees to the following terms:

1. Jurisdiction

(a) Torrance Bank is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. § 1813(b) and Section 2(4) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. § 1462(4). Accordingly, it is an "insured depository

¹ All references to the United States Code are as amended.

institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).

(b) Pursuant to Section 8(b) of the FDIA, 12 U.S.C.

§ 1818(b), the appropriate Federal banking agency may issue a cease and desist order against any insured depository institution that engages in unsafe or unsound practices in conducting its business and/or violates a rule or regulation.

(c) Pursuant to Section 3(q) of the FDIA, 12 U.S.C.

§ 1813(q), the Director of the OTS is the "appropriate Federal banking agency" to maintain an administrative proceeding against such a savings association. Therefore, Torrance Bank is subject to the jurisdiction of the OTS to initiate and maintain an administrative proceeding against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b).

2. OTS Findings of Fact

The OTS is of the opinion that Torrance Bank has not complied with (i) the Supervisory Agreement dated January 25, 1993 by and between Torrance Bank and the OTS; and (ii) certain rules and regulations, as is more fully discussed in the OTS's Report of Examination dated August 9, 1993.

3. Consent

Torrance Bank consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. Finality

The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director or designee for the West Region, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).

5. Waivers

(a) Torrance Bank waives its right to a Notice of Charges and the administrative hearing provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise challenge the validity of the Order.

(b) Torrance Bank acknowledges and agrees that the consent to the entry of the Order are for the purposes of resolving this OTS enforcement action only, and do not resolve, affect or preclude any other civil or criminal proceeding which may be or has been brought by the OTS or another governmental entity.

6. Signature of Directors

Each Director signing this Stipulation attests that s/he voted in favor of a resolution authorizing the execution of the Stipulation.

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WHEREFORE, Torrance Bank, by a majority of its directors,
execute this Stipulation and Consent to Entry of an Order to
Cease and Desist, intending to be legally bound thereby.

TORRANCE BANK, S.S.B.
by a majority of its directors:

By: 
Director Name

By: 
Director Name

By: 
Director Name


By: 
Director Name

By: 
Director Name

By: 
Director Name

By: _____
Director Name

Accepted by:
OFFICE OF THRIFT SUPERVISION

By: 
John F. Robinson
Regional Director